

SUBSTANTIATED REPORT

BY THE BOARD OF DIRECTORS OF **SOPHARMA AD, SOFIA**

REGARDING: The terms and appropriateness of transactions under art. 114, par. 1 of the Public offering of securities act (POSA), proposed to the General Meeting of Shareholders, scheduled for 24 April 2017, for approval and authorization of the Board of Directors of the Company for their conclusion

The present report has been prepared and approved by the Board of Directors of Sopharma AD, Sofia at a meeting held on 9 March 2017, subject to the provisions of art.114a, par.1 of POSA, art.46 of Regulation №2 from 17 September 2003 of the Financial Supervision Commission for prospectuses for public offering and admission to trading on a regulated market of securities and for disclosure of information by public companies and other issuers of securities, and the Articles of Associations of the Company.

According to art.114a, par.1 of POSA, the present Report of the Board of Directors of the Company is part of the materials on the agenda of the General Meeting of Shareholders, scheduled for 24 April 2017.

The purpose of the Report is to present to the Shareholders of Sopharma AD, Sofia the essential conditions and the appropriateness of the transactions under art.114, par.1 of POSA, proposed for approval at the General Meeting of Shareholders, scheduled for 24 April 2017, in order to allow an informed decision by the Shareholders on the relevant agenda items – namely authorization of the Board of Directors of Sopharma AD, Sofia to conclude these transactions.

The Substantiated report contains four sections with information about the parties, the subject, the conditions, the amount and the terms of the particular transaction, as well as an analysis of the circumstances, justifying the need for authorization of the Board of Directors by the General Meeting of Shareholders for the execution of the transactions arising from the provisions of art. 114 and following of POSA.

Subject of the current report are the following transactions:

A contract governing the relations with SOPHARMA AD providing collateral by entering as a co-debtor under a contract for a working loan between the subsidiary Sopharma Trading AD and a financial institution - ING Bank NV - Sofia Branch "- a transaction falling within the scope of Art. 114, para 1, item 2 in connection with Item 1, letter" b "of POSA

1. SUBJECT OF TRANSACTION – The proposal is the General Meeting of Shareholders of SOPHARMA AD to approve the conclusion of a transaction under which SOPHARMA AD will undertake a commitment as a co-debtor within the meaning of Art. 101 of the Obligations and Contracts Act for a working loan of up to BGN 28,000,000 / twenty-eight million / euro to be concluded between the Bank and the subsidiary of SOPHARMA AD, Sopharma Trading AD as a debtor.

2. CONTRACT PARTIES

Mortgage/pledge mortgagee/debtee: ING Bank NV, registered in the Chamber of Commerce and Industry in Amsterdam, with seat and management address – Amsterdam 1102 MG Billmerplane 888, the Netherlands, through its branch ING Bank NV - Sofia Branch, entered in the Commercial Register at the Registry Agency, UIC 831553811, with registered office and address of management 1404 Sofia, Bulgaria Blvd., ent. A, floor 7, represented by together each of the two Governors Egbert Harmen Jacob Wurman, Vladimir Boyanov Chimov, Miroslava Mihaylova Strashilova, Tsvetomir Stefanov Uzunov.

Debtor: „Sopharma Trading“ AD, commercial company, established and operating under the Laws of the Republic of Bulgaria, registered with the Commercial Register of the Register Agency with VAT: 103267194 with seat and address of management Sofia, 5, Lachezar Stanchev Str., „Sopharma Business Towers“, building A, floor 12, represented by Dimitar Georgiev Dimitrov – Executive Director of the company.

Mortgage/pledge debtor: “Sopharma” AD with seat and address of management – Sofia 1220, Nadezhda District, 16 Iliensko Shose Str., registered in the Commercial Register at the Registry Agency under UIC 831902088, represented by Ognian Ivanov Donev in his capacity as Executive member of the Board of Directors of the Company.

3. PARTICIPATION OF INTERESTED PARTIES IN THE CONTRACT WITHIN THE MEANING OF ART.114, PAR.6 OF POSA

Within the meaning of art.114, par.6 of POSA interested parties are members of the management and supervisory bodies of a public company, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company or control it, and in transactions with a subsidiary - members of its management and supervisory bodies, persons - representatives of legal entities, members of such bodies, its procurator, persons who hold directly and/or indirectly at least 25 percent of the votes in the General Meeting of the company other than the public company, as well as the parties related to them when they:

1. are a party, its representative or proxy in a transaction or when actions or transactions are being conducted in their favor, or
2. hold directly and/or indirectly at least 25 percent of the votes in the General Meeting or control the legal entity, which is a counterparty, its representative or proxy in the contract or in favor of whom the actions or transactions are being conducted;
3. are members of managing or supervisory bodies, representatives of legal entities, members of such bodies or procurators of a legal entity under item 1 and 2.

The transaction, proposed for approval, involves interested parties within the meaning of art. 114, par. 6 of POSA by the following features:

The Executive Director representing the public company SOPHARMA AD – Ognian Ivanov Donev is also Member of the Board of Directors at the company debtor Sopharma Trading AD.

SOPHARMA AD is the parent company with relation to the counterparty, exercising control through the ownership of more than 50% of the capital of that company.

The parties to the transaction - guarantors as related to SOPHARMA AD persons are interested parties within the meaning of art. 114, para 6 of POSA.

These persons, as well as the parties, related to them, are interested parties within the meaning of that cited law and pursuant to art. 114, par. 4 of POSA, they cannot exercise their voting right during the voting on this decision by the General Meeting of the Company, scheduled for 2 June 2017, to authorize the Board of Directors concerning the conclusion of the proposed transaction. The decision on this agenda item shall be taken by a majority of the remaining represented shares.

4. TERMS AND CONDITIONS OF THE TRANSACTION

The Board of Directors informs the shareholders with regards to the following main terms of the proposed transaction:

The secured claim arises from a Working Loan Agreement of up to 28,000,000 / twenty-eight million / euro, the funds to be used by the Borrower to finance the Company's current business.

Type of credit - overdraft and contingent liabilities.

Interest - 1M Sofibor / Euribor + minimum 1,6% per annum, but not less than 1,6% per annum.

Deadline - 12 months, renewable.

With regard to the provision of Art. 114a, para. 5 of the Public Offering of Securities Act, the Board of Directors of SOPHARMA AD has assessed the terms of the transaction and confirms to the General Meeting of Shareholders that the transaction will be carried out at a market price.

The General Meeting of Shareholders of SOPHARMA AD should authorize the Board of Directors of the Company to conclude the transaction and to carry out all legal and factual actions necessary for its implementation, in compliance with the decision of the General Meeting of Shareholders, the Articles of Association of the Company and in accordance with Applicable provisions of the current legislation.

5. BENEFICIARIES OF THE TRANSACTIONS

All parties are beneficiaries of the transaction.

6. ASSESSMENT OF CONDITIONS UNDER ART. Art.114, para 1, item 2, in relation to item 1, letter b) of POSA - these conditions are assessed when, as a result of the proposed transaction, obligations arise for the company to one person or to related persons of common Value above the value under item 1, letter "a", and when the liabilities arise to interested persons or for the benefit of the persons concerned - over the value under item 1, letter "b".

Under the proposed transaction, SOPHARMA AD will incur obligations as a co-debtor under the conditions of solidarity with one person - the creditor, while at the same time there are the circumstances referred to in Article 114 (6) of the Public Offering of Securities Act (" Which in this case applies the provision of Art. 114, (1), item 2 in relation to item 1, letter "b" of POSA.

The value of the assets for determining the thresholds under Article 114, para. 1 of POSA are:

Value of assets in the audited financial statements as at 31 December	Value of assets in the unaudited financial statements as at 31 December 2016 in	Amount of the collateral in BGN	Threshold under art.114, par.1, item 1, letter "b" of POSA in BGN

2015 in BGN BGN

		54 763 240	
570 609 000	568 983 000	(EUR 28,000,000 at a fixed exchange rate of EUR 1,95583)	11 420 000

The above tables illustrate that the total value of the proposed transaction exceeds the thresholds of art.114, par.1, item 1, letter "b" of POSA an explicit authorization of the Board of Directors by a decision of the General Meeting of Shareholders is necessary for its conclusion.

7. APPROPRIATENESS OF THE PROPOSED TRANSACTION

"Sopharma" AD is mainly engaged in the manufacturing of medicinal products. The revenue and profit of the company from carrying out this activity are directly and immediately related to the realization of the production of the company products on the domestic and foreign markets. The major role in this process belongs to the wholesalers - distributors of products manufactured by "Sopharma" AD.

"Sopharma Trading" AD is mainly engaged in the wholesale and retail of medicines and sanitary products. The company is the main and largest distributor of "Sopharma" AD for the Bulgarian territory.

Providing an opportunity for turnover overdraft lending under good market conditions, SOPHARMA TRADING AD guarantees the opportunity to meet without difficulty the expenses incurred in the course of the company's business activities, respectively. To ensure the smooth running of this business. Ensuring a normal commercial process in the company would contribute to the realization of income from the activity and increase of the financial result, respectively - to achieve higher profitability for the shareholders of SOPHARMA TRADING AD. This determines the nature of the interest of SOPHARMA TRADING AD from the deal.

By participating in the transaction by providing a collateral, "Sopharma" AD facilitates the provision of timely financing on acceptable market conditions to "Sopharma Trading" AD. Through the received funding, "Sopharma Trading" AD will be able to implement its investment strategy to expand the company's market share in the region, respectively ensuring the subsequent significant growth in revenues and profits achieved in the segment of wholesale trade in medicinal products. The described revenue growth would be reflected in the consolidated financial results of "Sopharma" AD leading to higher returns for its shareholders.

Interest in participating in the transaction guarantors - subsidiaries of the Borrower and indirectly of co-debtor, is conditioned by the fact that part of the proceeds of the transaction would be aimed at rebranding and integration of the newly acquired retail chain carrying on retail sale of medicines in Bulgaria, structure of the group of "Sopharma Trading" AD, which would have the effect of broadening and strengthening the market presence of chain pharmacies Sopharmacy, respectively, achieve higher revenue and realize more o better financial result.

Interest of ING Bank NV - Sofia Branch from the transaction is determined by the fact that the bank would generate revenues from its core business, working with stable corporate clients such as SOPHARMA AD and SOPHARMA TRADING AD.

The foregoing determines tripartite economic benefits and appropriateness of the proposed transaction.

The Board of Directors of SOPHARMA AD, Sofia, considers that the transactions proposed in this report are in the interest of the Company and proposes to the shareholders to adopt a decision approving the conclusion of the transactions under the aforementioned conditions and observing the requirements of the Company's Articles of Association and the POSA.

The Board of Directors of SOPHARMA AD shall notify all interested parties within the meaning of Art. 114, para. 6 of the Public Offering of Securities Act, whether expressly mentioned in this report, but who fulfill the conditions of the aforementioned provision, that, if they are shareholders in SOPHARMA AD, they are not entitled to vote in the respective item on the agenda of The General Meeting of Shareholders convened on June 2, 2017, on which a decision is to be taken on a transaction involving them. In such cases the decisions should be taken by a majority of the other shares represented in the capital of SOPHARMA AD. The same will apply in the event of the General Assembly being held on June 16, 2017.

This report is drawn up by the Board of Directors of SOPHARMA AD, adopted by a Protocol of April 18, 2017 and is part of the materials on the agenda of the General Meeting of Shareholders of the Company, convened on June 2, 2017.

Board of Directors of “Sopharma” AD:

1. Ognian Ivanov Donev:
2. Vessela Lyubenova Stoeva:
3. Alexandar Viktorov Tchaushev:
4. Ognian Kirilov Palaveev:
5. Andrey Lyudmilov Breshkov: